PROPOSED REFORMS IN THE SYSTEM OF FOOD DISTRIBUTION

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The interest in the cost of living has grown with the rise and fall of prices. Manufacturers have been concerned with the effect of price fluctuations upon wages and upon their struggle for world markets; laborers, with the effect upon their present purchasing power; farmers, with the relation of selling prices to cost of production, and railroads with the effect of declining prices of farm products upon traffic. The present article will consider certain reforms proposed for reducing the cost of distribution of food as a factor in the cost of living.

The distribution of no one product has received such general public attention as that of milk, and yet milk distribution is a relatively simple problem. The producer at present usually sells direct to wholesale receivers who are also retailers of the product to the consumer. At first the producers or dairymen themselves hauled their product to town and distributed it from their own wagons to the consumers; but as cities became larger, it was necessary for them to ship the milk into the cities from a distance. Then of necessity, health regulations became more exacting, and with the demand for pasteurization, greater equipment was required, and finally greater capital was necessary for receiving-stations and delivery trucks. The result was that the dairymen found it easier to sell to milk dealers who generally retailed the product to the consumers. Distribution came to be controlled by fewer and fewer milk dealers or distributors. Of the three classes interested, the distributors first organized to determine the price to be paid to the producer and the price to be charged to the consumer.

The relatively low prices paid to the producers soon forced them to organize in their own protection. Before organization, the producers felt that they had no voice in determining the price of their product. They were being forced to sell milk at a low

margin of profit or at a loss. Organization of milk producers had the same effect as organization of producers in certain other lines of agriculture, namely, increased prices to producers.[1] However, such reforms of the control of distribution by the producers have not usually placed sufficient control in their hands to assure them the necessary cost of production and still less a fair profit.

It should be noted that the organization of agricultural producers in certain sections, especially the potato growers of eastern Virginia and the fruit, nut, and poultry producers of California, has resulted in certain economies of distribution and in the transfer of certain elements of control from middlemen to farmers. One organization in a section has taken over the competitive right of the individual farmer to sell where he pleases. Through becoming the main agency for assembling products in any given producing section, the organization has eliminated the wasteful competition of a large number of local middlemen, and has reduced the usual expense of soliciting business incurred by middlemen. The difficulties of management are not so great when a large volume of a given product is contracted to the organization over a period of several years. Through the pooling of products, the growers have obtained the same price for the same grade for a given season or year and thus have realized the economies of co-operative insurance against the hazards of fluctuating markets. These organizations have abolished the method of hit-or-miss distribution, and secured a wider, more even marketing of products to wholesale receivers at a less per unit cost. At the same time, the manufacturing processes which have been undertaken by certain organizations have been improved, and the product has been improved in quality and grade. Finally, the prices returned to the growers have been increased and stabilized, and production has been encouraged.[2]

[1] Clyde L. King, *The Price of Milk*, chaps. vi. vii; R. D. Cooper, *Dairymen's League News*, New York, December 10, 1919; N. E. Baum, *ibid.*, August 10, 1919; *Annual Reports California Market Commission*, 1918, 1919; J. W. Lloyd, "Co-operative and Other Organized Methods of Marketing California Horticultural Products," *University of Illinois Studies in the Social Sciences*, 1919, pp. 37–44.

[2] However, duplication of marketing-machinery in the form of branch offices, dealer service, and salesmen, by every commodity organization causes needless sales cost to both producers and consumers. The establishment of a separate system of distribution for each commodity may be a gain over the former multiplicity of

The method of collective bargaining through organization, found necessary by dairy farmers in order to obtain a living profit, is a method long employed by the laboring classes for the same purposes, though farmers generally have not been sympathetic to such protective measures when employed by wage-earners. The milk producers' organization, when serving simply the strategic purpose of an efficient bargaining agency, is essentially an expense to the producer rather than any service in distribution to the consumer. But to the extent that an organization does co-operate to improve, standardize, and grade the product, to reduce the cost of assembling milk at country stations, to make collections for members, and to establish plants to work up the surplus milk into butter, cheese, milk powder, and cottage cheese; that is, to the extent that the organization reduces the cost of the processes of producing and distributing milk and milk products, it may be said to be rendering some tangible service to the consumers.

Like the producers before organization, consumers have felt that they had no voice in prices. They have believed that milk prices are largely determined by two monopolies, one of producers and the other of distributors. Consumers have carried on agitations to prevent the rise in milk prices or to reduce them. A favorite method has been to appeal to the people to refrain from consumption, that is, to employ the strike method of control of prices. This protest on the part of consumers, like that of the producer, has had little or no effect on the actual methods and cost of distributing milk. The method of the strike when concertedly employed by consumers in a refusal to take a normal supply of a perishable product, or when exercised by laborers to withhold needed service, or by manufacturers and farmers, to stop manufacture or to decrease the amount of a product produced, is always an additional cost either upon production or distribution without in any way adding to the serviceability of the goods themselves. But until society develops some more constructive control

buyers working at cross purposes, but still it represents great duplication and larger cost just to the extent that one system could more efficiently co-ordinate the distribution of farm products. All activities to capture or create favorable price fluctuations add to the cost of distribution to the consumers without adding to the serviceability of the products.

of industry by all the interests involved, such protective measures will be increasingly employed by consumers in an effort to make the economic power of their collective purchase have corresponding weight with that of the better organized sellers. The control of patronage in the interests of the consumers themselves means the transfer of the important asset of "good will" from the distributors to the consumers in the form of lower prices.

Investigators of these conflicting interests have shown a decrease during certain periods in the supply of milk as a result of low prices to producers, and waste on the part of producers in keeping low-producing cows, and in the small-scale hauling of milk to milk depots, and loss to producers through failure to co-operate in the purchase of supplies and of high-grade stock, and waste on the part of the distributor in duplication of pasteurizing plants and other equipment, in many distributors delivering in the same block, and in their failure to adopt a uniform standard for return of bottles.[1] The recommendations made as a result of such investigations have included (1) zoning of cities and licensing of distributors, one distributor to operate in each zone, (2) distribution by co-operative organizations of producers or consumers, (3) municipal distribution of milk, and (4) authorization of a distributive monopoly under state regulation.[2] The general conclusion reached seems to be

[1] *Preliminary Report of the Council of Farm and Markets of Its Investigation of the Cost of Production and Distribution of Milk in New York*, State Legislative Document, No. XCIV (1919), p. 7; *Report of Food Committee, New York Reconstruction Commission on the Milk Problem*, August, 1919, pp. 23–30; Irwin G. Jennings, *A Study of the New York City Milk Problem*, National Civic Federation, New York, 1919, pp. 13–24; *Report of the Mayor's Committee on Milk, City of New York*, December, 1917; A. E. Cance and R. H. Ferguson, *The Cost of Distributing Milk in Six Cities and Towns in Massachusetts*, Bulletin No. 173, Agricultural Experiment Station, 1917, pp. 50–52; *Report of the Special Milk Board, Massachusetts State Dept. of Health*, 1916, p. 89; *Report of the Attorney-General in the Matter of the Milk Investigations, State of New York*, Bulletin No. 45, 1910, p. 10.

[2] Report to Herbert C. Hoover, U.S. Food Administrator, *The Production, Distribution, and Food Value of Milk*, Washington, pp. 26–27; *Report on The More Economic Distribution of Milk in the City of Chicago*, by the Committee on Health, Chicago City Council, Municipal Reference Library, December, 1917, pp. 1–15; *Report of the Governor's Tri-State Milk Commission*, Harrisburg, Pennsylvania, 1917, pp. 43–51. Distributors' margins vary greatly within each city and between the cities of the United States. The range of cost in 1919 was from $.0919435 in Boston to $.063115 in Philadelphia and $.0425 in Ottawa, Canada, in 1920. In Philadelphia and Ottawa,

that competition has not eliminated waste, that elimination of waste, would greatly reduce the cost of distribution, that milk is of such supreme importance to the health of a people that it should be declared a public utility and regulated so as to reduce its cost as much as may be consistent with securing a stabilized supply. One plan of reform proposed would condemn the competitive system as inadequate for solving the problem, and would substitute in its place a regulated monoply.[1] There is no question of the greater economy of a complete organization of producers, distributors, and of consumers to operate the distributive system in complete co-ordination of the interests involved. But the question remains, Who is to control the system? If any one of these classes has a position of control under the price system will it not use its control for its own interests? If, instead of one distributor being licensed for each zone, one distributor is licensed to distribute in all districts, as has been proposed for New York, the monopoly authorized may become more powerful than any commission which the state may set up for its control. The regulated may come to control the regulators.

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the cost has been kept down by dealers realizing to a considerable extent, the economies of the zone system of distribution.

In Erie, Pennsylvania, a city of forty-five thousand inhabitants, the milk producers organized to establish one system of distribution for 80 per cent of the milk producers who became members to take the place of eighty-five to ninety dealers who had previously been distributing the city's milk supply. The city was zoned and the number of routes reduced from sixty-five to twenty-three and the cost of distribution was greatly reduced for both the producer and the consumer (T. D. Willis, Erie County Milk Association, *Milk Trade Journal*, November, 1917).

In eighty-six towns in England and in sixty-eight towns in Scotland, co-operative societies of consumers distribute milk to their own members. Two co-operative societies, members of the British Co-operative Wholesale Society, from which reports have been received, have reduced the price of milk to consumers from 8*d*. and 9*d*. to 6½*d*. and 7*d*. per quart (*Producer*, Manchester, England, June 22, 1920, p. 250). The Greenock Central Co-operative Society, Ltd., reports "the cost of distribution including all expenses of pasteurization, bottling, etc., for the year to last September worked out at eight pence per gallon." The Derby Provident Society, Ltd., of Derby, England, reports "the cost of handling and delivering to customers' houses is six pence per gallon."

[1] *Report of Food Committee, New York State Reconstruction Commission*, August 14, 1919; *Report of the Mayor's Committee on Milk, City of New York*, December, 1917, p. 85.

If the distributors are allowed to have a dominant control, through their control of the agencies that buy all the whole milk for distribution to consumers, and if they are allowed, further, to control the plants where a large part of the milk is used for the manufacture of butter, cheese, condensed milk, milk powder, and cottage cheese, then it may be expected that their margin of profits will be higher than that of the producers, that prices to consumers may be so high as to prevent full consumption, that prices to producers during periods of inflation and of rising prices, as during periods of falling prices, may frequently be so low as to discourage production, and that finally the babies of the poorer classes will not be provided with the nutriment necessary to make healthy and efficient human beings.[1] To the present methods of control are traceable the vast accumulations of profits, of capital and of borrowing power in the hands of the distributors, which in turn give to the distributors the power, not necessarily by intent but in effect, to discourage production and to prevent consumption.

In response to the more urgent demands of war and post-war needs producers greatly increased the number of dairy cows. When, however, Europe ceased to be able to provide sufficient credit in New York for the purchase and import of condensed milk and other products, condensing companies shut down their plants on October 1, 1920, and refused to take the milk off the hands of producers.[2] In some instances, manufacturers took the milk for the manufacture of butter and cheese, giving the farmers what the product would bring in the open market, less costs of operation. This arrangement brought the producer approximately 50 per cent of the cost of production. Many farmers, deprived of markets, had to dispose of their herds or allow their cows to go dry. It is claimed that the surplus of milk was used to depress the price of

[1] E. G. Nourse, "Will Agricultural Prices Fall?" *Journal of Political Economy*, March, 1920, p. 214; Leon Ardzrooni, "The Philosophy of Restriction of Output," *Annals of the American Academy of Political and Social Science*, September, 1920, p. 70; A. R. Marsh, "Lessened Production as the Answer of Producers," *Economic World*, November 20, 1920; Clyde L. King, *The Price of Milk*, chaps. vi, vii.

[2] *Market Reporter*, October 2, November 6, and December 4, 1920, January 1 and February 5, 1921. Fifty condensing plants were reported shut down in January. Cf. G. F. Warren, "The Price Situation," *Wallace's Farmer*, January 28, 1921.

whole milk especially to the producers who are members of the Dairymen's League.[1] The *immediate* effect of the struggle between the manufacturers, the distributors, and the New York Dairymen's League was to curtail the supply of milk again and to maintain prices to consumers. In a survey of 11,007 families in New York City, 5,775 mothers claimed that children were deprived of milk by reason of its high cost, and 4,053 others claimed their children suffered by reason of the use of less milk. "In 10,793 families substitutes in the form of tea, coffee, cocoa, cereals, and other drinks are used; that is to say, in over 98 per cent of the homes investigated this dangerous practice has full sway." Of the 19,037 children in these families, 7,328 children were suffering from some form of nutritional disorder.[2]

The important thing from the social point of view is that resources and equipment shall be fully utilized to meet human needs. Resources like milk-condensing plants may be kept idle to prevent price reductions, but idle resources do not feed human beings, though capital value may be increased or maintained for the manufacturers and distributors and decreased for the owners of dairy cows and of farm lands. To the extent that farm lands are not pledged as security to the dominant class of investment bankers, but to small-scale savers through the instrumentality of savings banks and of federal land banks, it may be expected that a decrease in the value of farm lands will happen without any serious disturbance of the business system. However, if the elimination of property value in land is accompanied by a fall in prices so great that they do not cover operating costs, then production and railroad traffic and the purchasing power of farmers will so decrease as to disturb the market for manufactured products.

In the distribution of fruit, vegetables, butter, and eggs, investigations by the Federal Trade Commission and by others likewise show much serious waste and disorganization, which have led to the proposal of various reform measures.[3] Consideration will be first

[1] Information secured from the New York Dairymen's League.

[2] *Report of the Governor's Fair-Price Milk Committee for the City of New York*, December 27, 1919, p. 8.

[3] *Report of the Federal Trade Commission, Wholesale Marketing of Food*, 1919.

given to the costs and defects of the present methods of distribution and then attention will be given to certain reform measures proposed for their improvement. The flat price which the trade frequently pays the producer for farm products puts a premium upon not grading, and encourages putting in culls and other waste matter. The lack of special technical direction allows the product to be delayed in transit and at terminals. The competitive system of freight depots even in places where there are belt lines connecting all railroad systems, necessitates that the receivers of perishable goods shall obtain them at different points, wide apart, with consequent delay and increased cost of delivery.[1] The lack of sufficient unloading-platforms for the multiplicity of receivers results in a waste of time of truck-drivers and a waste of products handled. The lack of cold storage plants and heated warehouses for use as protection from heat and cold while perishables are being delivered from the cars hastens deterioration of products carried. The congestion on the streets from trucks; the lack of cold storage facilities of a public character; the frequent location of wholesale districts near the water front, and not as a part of a complete system of transportation with specialized central terminals and markets, are methods that indicate a wasteful lack of system. The large percentage of products which are handled upon a commission basis, especially during periods of declining prices, makes the loss of falling prices and of glutted markets fall not upon the middleman operators of the system, but upon the farmers and consumers. The sale of products by the buyer on days of receipt of similar products, in order to "bear" the price to be paid the producer or shipper and the competitive organization of distributors which amounts to disorganization as far as the consumers' needs are concerned, cause loss and waste to the producer.

This scheme of business may or may not be adequate from the point of view of distributors' profits. This, however, is not the question primarily under consideration in this paper. The lack of a proper direction of the system has the effect of discouraging

[1] *Ibid.*, pp. 92, 114; E. G. Nourse, *The Chicago Produce Market*, p. 24; Thorstein Veblen, *The Vested Interests and the State of the Industrial Arts* (New York: B. W. Huesch, 1919, pp. 82, 87 ff.).

production and accounts in a measure for the movement away from the farm to the city. It is a factor in keeping the cost of living high, whether the farmer is producing below the cost of production or at a profit. To meet this situation, which the competitive system does not remedy, the Federal Trade Commission proposes that all railroads shall be required to unload and receive all perishable food products at central terminals. According to this plan of reform, facilities for the storage until sale, or for preserving, canning, and dehydrating the surplus, and also sales and auction rooms would be provided in connection with the central terminals. All facilities would be open to all on equal terms, space being reserved for producers who desire to sell their products seasonally, or occasionally. The manager of the centralized terminal or a government agent would be authorized to receive products direct from farmer or shipper and sell them at auction through a licensed auction firm. All terminals, storage plants and wholesale markets would be provided or regulated by the federal government. For the purposes of regulation, every dealer would be licensed by the federal government and "no licensee should be permitted to (*a*) engage in any unfair, unjustly discriminatory, or deceptive practice or device in commerce; or (*b*) charge an unreasonable price or rate in commerce; or (*c*) exact an unreasonable profit for any calendar year in carrying on his business in commerce; or (*d*) refrain from buying food products for the purpose of unreasonably depressing the price of those products in commence; or (*e*) withhold from the market any food products for the purpose of unreasonably enhancing the price of those products in commerce; or (*f*) sell or otherwise transfer to or for any other licensee, or buy or otherwise receive from or for any other licensee, any food products for the purpose of apportioning the supply, or unreasonably affecting the price, or creating a monopoly of those products in commerce; or (*g*) be both buyer and seller, directly or indirectly, in the same transaction; or (*h*) conspire, combine, agree, arrange, or have an understanding with any other person to apportion territory for carrying on business or to apportion purchases or sales of any food commodity or to control prices in commerce."[1]

[1] *Report of the Federal Trade Commission, Wholesale Marketing of Food,* pp. 185–94.

While the conclusions reached by the Federal Trade Commission unintentionally show the inadequacy of the competitive system, the reforms proposed would really establish the competitive system more completely than ever. The bias of the investigators is toward a free and open market with equal charges and no discrimination. But the reforms proposed do not affect the volume of business of the distributors. The investigation shows that any distributor or group of distributors controlling any considerable portion of a given product on any given market has the power to depress the purchase price or to raise the sale price on that market. It is doubtful whether any regulations can be made effective to prevent "bearing" or "bulling" the market, for such operations are usually so secret that only those on the inside know what is being done until after "the drive" has been made, and then those who have made the main moves may not be known.

Again, the reforms proposed do not in any way make provision for directing shipments at point of origin or en route, so as to prevent over- or under-stocking of markets. With no adequate direction of shipments, glutting of markets will follow, and also many of the evils connected with such disorganization. Through the policy of government restriction on agreements, the economies of voluntary organization in the distribution of perishables for the purpose of preventing glutting of markets and for securing an economic zoning of the territory to be covered are made impossible, as a similar insistence upon competition, which does not compete, has prevented an economic unification of the railroads of the United States. The reforms proposed cover the same grounds as those authorized by Congress during the war, and in addition contemplate that the government may establish central terminals and central markets and cold storage plants with the purpose of putting all dealers on the same basis. But the question remains, can dealers of unequal volume of goods and controlling unequal capital and credit be put upon the same basis?

The assumption of the reformers is that if the government puts traders upon the same basis, they will compete. But if it is not for the interest of traders to compete, will they do so? Competition itself has been found to bring about the survival of the most

powerful or to encourage an unnecessary number of dealers who may work together for their own protection, but not for the solution of the larger problems of the trade.[1] *A multiplicity of shippers, wholesalers, and retailers does not solve the problem of produce distribution any more than a multiplicity of milk distributors that of milk distribution.* Then again the purpose of this reform by the Federal Trade Commission is to bring about equality of trading conditions, but if traders are always seeking and making differentials, will any minor change essentially affect the nature of the system?

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[1] "The co-ordination within an enterprise is the result of careful planning by experts; co-ordination among independent enterprises cannot be said to be planned at all; but rather is it the unplanned result of natural selection in a struggle for business survival. . . . . Co-ordination within an enterprise is maintained by a single authority possessed of power to carry its plans into effect; co-ordination among independent enterprises depends on many different authorities contending with each other and without power to enforce a common program except as one can persuade or coerce them."—Wesley C. Mitchell, *Business Cycles*, University of California Press, 1913, p. 38.

[*To be continued*]